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SALE OF NEW HAMPSHIRE BALL BEARINGS, INC. TO THE JAPAN-BASED MINEBEA COMPANY

HEARING

BEFORE THE

SUBCOMMITTEE ON PREPAREDNESS

OF THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

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SALE OF NEW HAMPSHIRE BALL BEARINGS, INC., TO THE JAPAN-BASED MINEBEA CO.

WEDNESDAY, SEPTEMBER 26, 1984

U.S. SENATE,
SUBCOMMITTEE ON PREPAREDNESS,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:59 p.m., in room SR-232A, Russell Senate Office Building, Senator Gordon J. Humphrey (chairman) presiding.

Present: Senator Gordon J. Humphrey.

Also present: Ronald P. Kelly, assistant to Senator Humphrey, John G. Campbell, professional staff member; and Lisa M. Tietge, staff assistant.

OPENING STATEMENT BY SENATOR GORDON J. HUMPHREY, CHAIRMAN

Senator HUMPHREY. The Preparedness Subcommittee has called a hearing today to review the analysis of the proposed sale of New Hampshire Ball Bearings, Inc., to the Japan-based Minebea Co.

New Hampshire Ball Bearings makes precision ball bearings for the defense agency and small motor applications. The analysis has been in progress for a number of months, so far without conclusion.

In addition to looking at the specific sale, the process of analyzing similar sales will be reviewed also. The implications of this and similar sales on national security and industry-based transfer of technology and Federal and State laws and Government regulations will be discusssed.

We have invited witnesses from Government and industry. Today's witnesses are from the State Department, Treasury, Commerce, Defense; and from industry we have witnesses from New Hampshire Ball Bearings, Inc., and have received verbal and written statements from the following agencies and departments: Justice Department, Federal Trade Commission, NASA, Securities and Exchange Commission, and U.S. International Trade Commission.

We will invite the witnesses in the following sequence: The first panel will be the Treasury, State, and Commerce Departments. We would ask the witnesses from those departments to come to the table.

Why don't we start with the State Department.

STATEMENT OF RICHARD SMITH, DEPUTY ASSISTANT SECRETARY, INTERNATIONAL FINANCE AND DEVELOPMENT, DEPARTMENT OF STATE

Mr. SMITH. Mr. Chairman, I don't have a written statement. The written statement is by Mr. Cornell of Treasury. I have discussed it with him and support it. I can read the statement if you would like. That might be a good way to start. It reflects the State Department's views also.

Senator HUMPHREY. Are you Secretary Smith?

Mr. SMITH. I am Deputy Assistant Secretary of State for International Finance and Development.

The statement I am reading is a statement which has been submitted by Robert A. Cornell, Deputy Assistant Secretary, Trade and Investment Policy of the Department of the Treasury.

STATEMENT OF ROBERT A. CORNELL, DEPUTY ASSISTANT SECRETARY, TRADE AND INVESTMENT POLICY, DEPARTMENT OF THE TREASURY (AS READ BY RICHARD SMITH, DEPARTMENT OF STATE)

Mr. SMITH. I appreciate the opportunity to appear before the subcommittee today to present the Department of the Treasury's views on foreign direct investment. In my testimony today I would like to:

Present a short summary of U.S. investment policy and foreign investment in the United States.

Discuss the role of the Committee on Foreign Investment in the United States [CFIUS], which Treasury Assistant Secretary Mulford chairs, in implementing U.S. policy toward foreign investment in the United States.

And discuss the role of the CFIUS concerning a possible investment by the Minebea Co. of Tokyo in New Hampshire Ball Bearings, Inc.

U.S. INVESTMENT POLICY

Our country is now in the unique position of being the host to more foreign direct investment, approximately $133 billion at the end of last year, than any other country in the world.

At the same time the United States remains, with over $225 billion in direct investment abroad, the largest home country for corporations with foreign affiliates. Foreign investments in the United States have provided substantial benefits, including increased employment, new managerial and production techniques, improved efficiency for U.S. industries, strengthened U.S. capital markets and increased productive capacity.

Our outward direct investment plays a vital role in the countries in which it locates, significantly boosts U.S. trade, and provides our companies with sizable income each year, $26 billion in 1983.

We, therefore, clearly have a substantial interest in the conditions under which investment flows occur.

The administration last year released an investment policy statement which reflects our recognition of the important role played by international investment in the U.S. economy and globally. It is

the culmination of extensive interagency discussions over a period of months.

It spells out the general principles of our policy on international investment, which are as follows:

Foreign investment contributes to economic growth and development and promotes worldwide efficiency in production.

The maximum contribution from such investment occurs when it flows according to market forces.

Inward-bound foreign investment that flows according to market forces is welcomed by the United States.

Foreign investors here receive national treatment.

Our companies should receive similar treatment abroad.

We oppose the use by governments of distortive measures designed to distort or tilt the benefits of investment and trade.

We intend to pursue an active policy designed to reduce Government actions that impede or distort international investment flows.

And we will work to protect U.S. investors abroad.

We will implement this policy by pursuing both multilateral and bilateral initiatives. For example, in the OECD we have a work program underway to study the impact of investment incentives and performance requirements.

We have encouraged the multilateral development banks to explore ways to strengthen the role of the private sector in facilitating financial flows to the developing world.

We are pursuing an active program regarding bilateral investment treaties, which call for signatories to provide foreign investors with a stable and predictable investment climate.

FOREIGN INVESTMENT IN THE UNITED STATES

The United States has long benefited from foreign investment. In fact, the United States could not have developed the way it did without heavy infusions of capital from abroad.

A major advantage we have enjoyed in attracting such investment is our steadfast maintenance of an open investment climate. Despite the large nominal foreign direct investment in the United States, foreigners own a relatively smal percentage of U.S. productive capacity.

For example, U.S. affiliates of foreign companies account for about 2 percent of total employment in the United States; that 2 percent means 1.3 million jobs for U.S. workers.

Foreign investment in the United States is not concentrated in a few sectors; rather, it is spread among a large number of diverse industries, reflecting the broad attractions of the dynamic U.S. economy to prospective investors.

Although the United States has a tradition of welcoming foreign investment, it does have a number of safeguards to protect against potentially damaging investments. Foreign investors, like domestic investors, must comply with Justice and Federal Trade Commission antitrust requirements and Securities and Exchange Commission disclosure requirements.

In addition, we have a number of laws and regulations on activities of foreign investors in certain key sectors. These laws and regulations are maintained to protect our security and related inter-

ests in such areas as civil aviation, fresh water and coastal shipping, radio and television communications, atomic energy, and communications satellites.

CFIUS

The CFIUS has the primary executive branch responsibility for monitoring foreign investment in the United States and for implementing U.S. policy toward such investments.

Under Treasury's chairmanship its formal membership includes representatives from the Departments of State, Defense and Commerce, the Office of the U.S. Trade Representative, and the Council of Economic Advisors. In addition, representatives of other agencies participate regularly in CFIUS discussions.

The CFIUS has authority to review foreign investment which may have major implications for U.S. national interests. It has not been given authority to approve or disapprove foreign investments in the United States.

However, through its review and monitoring activities, the CFIUS does focus executive branch attention on particular investments, and may enable executive branch agencies to better implement U.S. laws to protect the national interest.

MINEBEA NEW HAMPSHIRE BALL BEARINGS, INC.

The CFIUS has not begun a formal review of a possible investment by Minebea in New Hampshire Ball Bearings, Inc.; but at least one agency has expressed concern over the possible investment and informally requested a CFIUS review. If the investment goes forward and CFIUS reviews it, I will be happy to report to you on the CFIUS findings.

In concluding, I would like to give you a tentative summary of the facts as we understand them today.

Minebea Company of Tokyo, Japan's largest manufacturer of ball bearings, has offered to buy New Hampshire Ball Bearings, Inc.

The Minebea Co., formerly known as the Nippon Miniature Bearing Co. or NMB Co., is known for growing through acquisition. Minebea changed its name to reflect its expansion in recent years into a broad range of industrial and electronic products.

Minebea's international interests include company properties in the United States, Singapore, Taiwan, and Thailand. In the United States, Minebea owns NMB which has offices in Texas, Illinois, and California. NMB makes ball bearings in Los Angeles.

Other Minebea Co. properties and interests include IMC Magnetics in Jericho, Long Island, and the Hi-Tec Corp. in California.

In addition to ball bearings manufacturing, Minebea has moved into computer components and computer chips. Minebea's new subsidiary called NMB Semiconductor, which will operate in tandem with the British semiconductor company called INMCS, is preparing to build computer chips.

New Hampshire Ball Bearings, Inc., makes miniature and large ball bearings, subassemblies, spherical bearings, rod ends, and precision steel balls for use mainly in aircraft engines and instruments, guidance and control systems, computers, and office machines.

Furthermore, New Hampshire Ball Bearings specializes in the sale of miniature bearings, and is one of the most important suppliers of the precision-made spheres for missile guidance systems and computer components. A substantial part of New Hampshire's business is with major military contractors.

New Hampshire employed, as of July 2, 1983, 1,352 workers.

We understand that the necessary filings with the SEC and the FTC are in process, but not complete.

That is the end of the statement. As I stated, that is a Treasury Department statement. I am delighted to see the author is now here.

I do want to emphasize that the statement was prepared in coordination with us and I am fully in agreement with everything it says.

Senator HUMPHREY. Thank you, Mr. Secretary.

You are Secretary Cornell?

Mr. CORNELL. Yes, sir.

Mr. HUNT. I am Cecil Hunt, Department of Commerce.

Senator HUMPHREY. Does Commerce Department have a statement?

Mr. HUNT. We do, Mr. Chairman.

Senator HUMPHREY. Will you proceed then.

STATEMENT OF CECIL HUNT, ASSISTANT GENERAL COUNSEL FOR INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE

Mr. HUNT. Thank you, Mr. Chairman.

I am pleased to appear on behalf of the Department of Commerce in response to your invitation. I am here with other executive branch officials to discuss questions raised by the committee concerning the acquisition by foreign investors of control over U.S. companies possessing advanced technology. The committee's invitation stressed the national security, industrial base and technology transfer implications of such acquisitions.

I shall confine my prepared statement to a brief description of Department of Commerce functions bearing on the questions under review. I hope that I can then provide helpful responses to any questions the committee may have as to the Department of Commerce's role, particularly as it relates to the export control implications of foreign acquisitions.

The Department of Commerce performs two distinct functions in the collection of data with respect to foreign direct investment in the United States.

Commerce's Bureau of Economic Analysis is responsible for conducting surveys of foreign direct investment in the United States pursuant to the International Investment Survey Act of 1976. (Pub. L. 94-472; 22 U.S. Section 3101)

The surveys include the comprehensive benchmark surveys conducted every 5 years and more limited current surveys that are reflected in annual reports furnished to the Congress. These statistics are compiled with the support of mandatory reporting provisions in the statute and regulations.

Information obtained is reported in aggregate form, in keeping with the confidentiality provisions contained in the statute.

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Within the Department of Commerce's International Trade Administration, the Office of Trade and Investment Analysis gathers and organizes information on foreign direct investment in the United States from a wide variety of public sources.

These include public filings with the Securities and Exchange Commission and with the Antitrust Division of the Department of Justice, as well as a wide variety of published sources. The Office of Trade and Investment Analysis gathers and organizes this material, and the Department publishes periodic reports listing such transactions and furnishing statistical information and analysis.

The Department of Commerce is the Agency primarily responsible for the implementation of the national security export controls applicable to goods and technology having both military and civilian applications—so-called dual use items.

These export controls, as well as the arms export controls administered by the Department of State, can be a factor to be considered in connection with foreign acquisition of certain U.S. companies. Export control considerations arise because of the transfers of technology abroad that may follow such an acquisition.

The Export Administration Regulations of the Department of Commerce define "export of technical data" to include "any release of technical data in the United States with the knowledge or intent that the data will be shipped or transmitted from the United States to a foreign country." 15 CFR Section 379.1(b).

Where the technical data is not to be transferred to a Communist country to which exports are controlled for national security purposes, most technical data can be transferred freely or under a general license that does not require prior approval of the tansfer by U.S. authorities.

The Department of Commerce has been assigned responsibilities under the Defense Production Act regarding industrial mobilization for national defense. These include the priorities and allocations, industrial resources and emergency preparedness programs.

These functions are also located in the International Trade Administration, in the Office of Industrial Resource Administration under the Deputy Assistant Secretary for Export Administration.

There are important opportunities for support and coordination among experts working on national security export control and their colleagues concerned with defense mobilization base issues.

In addition to its responsibilities for conduct of the programs I have described, the Department of Commerce cooperates with other Federal Government agencies concerned with foreign direct investment in the United States. The Department is a permanent member and an active participant in the deliberations of the interagency Committee on Foreign Investment in the United States [CFIUS].

The Department of Commerce is working with the other agencies in trying to address the national security issues raised by foreign acquisition of U.S. companies possessing critical advanced technology. These issues are important and complex.

We believe we are proceeding in accordance with the law and in accordance with the President's policy guidance on foreign investment in the United States.

Thank you.

Senator HUMPHREY. Thank you, Mr. Hunt.

Secretary Cornell, let me begin with you because the Treasury chairs the review group which I understand in this case is not yet complete.

In its participation in the group, is the Treasury Department looking into this particular case?

Mr. CORNELL. Yes, sir, the Treasury Department is. We serve as the secretariat for the committee, called CFIUS for short. In that secretariat role we not only collate and coordinate all the information which comes to us from the various agencies who are participating in the process, but we also do our own independent work to uncover the facts of the case and present them to the committee.

Senator HUMPHREY. Speaking now of CFIUS, how many cases per year does that organization handle?

Mr. CORNELL. The caseload tends to vary, but I would say 20 or 30 cases per year is the average.

Senator HUMPHREY. Taking a hypothetical example, where you find that it impairs and threatens national security, what then is the next step?

What recourse is there if that conclusion is reached?

Mr. CORNELL. As I indicated in my testimony, the committee itself does not have any power of enforcement. We simply make a statement that this investment is or is not in the national interest.

However, for national security-related concerns there is a considerable body of legislation which has been on the books for a long, long time which provides ways and means for foreign investors who own U.S. companies either to establish a board consisting of U.S. citizens or through other devices to obtain clearances and the like for their facilities.

It is a pretty settled procedure which has been followed for many, many years.

Senator HUMPHREY. You think it is likely that CFIUS will be convened in this case? What does it take, by the way, to do that? Just a request by one of the member agencies?

Mr. CORNELL. Yes, sir; request by a member agency and the appearance of formal indication that an investment is about to take place, usually on evidence from the SEC.

Then we would simply meet formally, institute a review, and in a relatively short period of weeks or months we can finish the review if it is not a complicated case.

Senator HUMPHREY. Which agency is it that has expressed concern?

Mr. CORNELL. I believe it is the Department of Defense. We may hear from others.

Senator HUMPHREY. Getting back to the Treasury Department itself, does the Department have responsibilities in these matters for national security or as they bear on national security and, if so, how do you define those responsibilities?

Mr. CORNELL. No, sir; we do not ourselves have formal responsibilities. As the agency which chairs the committee, we certainly know what the law is and we make sure that everybody's voice is heard.

Senator HUMPHREY. Has the Department of the Treasury reached a conclusion about this particular proposal?

Mr. CORNELL. No, sir; we have not.

Senator HUMPHREY. Secretary Smith, the same question: Does the Department of State in its separate responsibilities have any matters of this nature that bear on national security?

Mr. SMITH. No; with regard to investment in the United States, the answer is "no."

Senator HUMPHREY. How long, Secretary Cornell, will the CFIUS review take, once it begins?

Mr. CORNELL. I can't predict that with exactitude, but, as I said, most cases usually can be completed within a relatively short period of time, a few weeks or a month.

Once in a while the case is complicated or there is an interagency dispute in which case it takes longer. We try to push as fast as we can, one, because we do have a large caseload, and two, the public interest is served by moving quickly.

Senator HUMPHREY. How do you arrive at a report when you have so many different agencies with different responsibilities?

Mr. CORNELL. Essentially, we do it by having a staff level group which one, does most of the work gathering facts and organizing them, and then two, solicits the agency's opinions and views.

Very often, in fact, a case can be pretty well settled, the staff produces a report, and then it is very quickly signed off by a high level group.

Senator HUMPHREY. What is the total membership?

Mr. CORNELL. The regular membership consists of the main cabinet agencies, Treasury, of course, in the chair, State, Defense, Commerce, the Council of Economic Advisors, and the U.S. Trade Representative, but very often, in fact, almost usually, I would say, the Justice Department, Federal Trade Commission, and sometimes the SEC will also sit in the group.

It turns out not to be a very unwieldly group because people tend to know what they are talking about when they come to this particular group.

Senator HUMPHREY. It is a very unusual circumstance in Washington, an unwieldly group that knows what it is talking about.

That is very good. I am glad to hear that.

Supposing one of the agencies has grave reservations and the others don't. Is that a reasonable situation?

In other words, how do you decide what to recommend? Do some have one position and others have another position?

Mr. CORNELL. That can happen and the report that is produced by the staff will indicate that general consensus exists except for one or two agencies and the issue will be finally settled by escalating to a higher level until there is a sufficiently high level decision, which results in consensus.

Senator HUMPHREY. We have a number of questions we would like to submit to you in writing, to save time, if you don't mind.

Thank you for your statement and for your testimony.

Our next witness is from the Defense Department, Richard E. Donnelly, Director for Industrial Resources, William George and John Osterday.

Thank you for your statement. Mr. Donnelly, you may proceed.

STATEMENT OF RICHARD E. DONNELLY, DIRECTOR, INDUSTRIAL RESOURCES, DEPARTMENT OF DEFENSE, ACCOMPANIED BY WILLIAM GEORGE, OFFICE OF UNDER SECRETARY OF DEFENSE (POLICY) AND JOHN OSTERDAY, OFFICE OF INDUSTRIAL RESOURCES

Mr. DONNELLY. Thank you, sir.

I appreciate this opportunity to appear before you today to discuss the Department of Defense review and analysis effort related to the sale of New Hampshire Ball Bearings, Inc. to the Japan-based Minebea Co., Ltd.

Also, here to answer any questions that this subcommittee may have regarding our effort in this matter is Mr. William George, Office of Under Secretary of Defense (Policy) and Mr. John Osterday of my staff.

The DOD considers precision ball bearings—30 millimeter and smaller—such as those produced by NHBB as critical items required to support national defense, Over the last decade DOD has required that all precision bearings—30 millimeter and smaller—procured directly by defense or by our prime/subcontractors be of domestic origin. This restriction will continue in the future.

Currently, we have five producers for these bearings. They are: New Hampshire Ball Bearings, Inc., Laconia and Peterborough, NH; Nippon Miniature Bearings, Chatsworth, CA; Miniature Precision Bearings, Lebanon, NH; Barden Corp., Danbury, CT; and FAG Bearing Division, Ottawa, Canada.

I guess we should point out, Mr. Chairman, that when we describe the restrictions of the domestic industrial base in this case we mean North American defense industrial base to include Canada.

DOD became involved in review of the planned acquisition of NHBB by the Minebea Co., Ltd. of Japan because of our concern that a viable industrial base is maintained for these products.

So far, through our review, we have found that NHBB uses very sophisticated automatic measuring equipment—electronic contact angle measuring gauges and automatic preload gauges for matching precision bearing pairs. As such, it provides advanced capability in the United States for production of precision bearings.

It is important, therefore, that in any future industry restructuring this capability be preserved. We are continuing to gather supply and demand data for hearings from Government and industry sources in order to obtain a complete picture of this important industry sector.

The Department of Defense, as you learned earlier, is participating in a joint review of the proposed acquisition with other agencies, including the Departments of Treasury, State, Commerce, Justice and Labor, the Securities and Exchange Commission, and the Federal Trade Commission.

This review is still underway. Individual departments and agencies are to recommend formal policy positions when all relevant information has been received and reviewed.

Mr. Chairman, this completes my presentation. I will be happy to try and answer any additional questions the subcommittee may have.

Senator HUMPHREY. Thank you, Mr. Donnelly.

I am going to begin by referring to some of the remarks in your statement. I want to ask you some questions about some of these things.

You ticked off the five producers of the precision bearings. Of that, how many are under North American control or ownership?

Mr. DONNELLY. I guess that would probably be four out of five.

Do my associates agree with that?

Mr. OSTERDAY. No, three.

Senator HUMPHREY. Go through the list and describe the ownership.

Mr. DONNELLY. New Hampshire Ball Bearings, Laconia and Peterborough, NH. That is U.S. owned so far as I know.

Nippon Miniature Bearings of Chatsworth, CA, is the one owned by Minebea.

Miniature Precision Bearings, Lebanon, NH, United States.

Barden Corporation, Danbury, CT, United States.

FAG Bearing in Ottawa, Canada, I would assume is Canadian, perhaps German as well, sir.

Senator HUMPHREY. Can you tell us how many companies there were 10 years ago?

Mr. DONNELLY. I have figures in front of me which have yet to be verified, that say in 1968 there were 10 manufacturing plants.

If you wish, I can provide the names of those companies for the record.

Senator HUMPHREY. That is not necessary.

Do you know if those were all American controlled or North American controlled?

Mr. DONNELLY. I am not sure.

[Additional information follows:]

In 1968 there were 10 domestic manufacturing plants. They were: Microtech Corporation, Reed-SKF Corporation, MRC Corp., Fafnir Corporation, New Departure Corporation, Norma Hoffman Company, Kubar Corporation, New Hampshire Ball Bearing Corporation, Barden Corporation, Miniature Precision Bearing Corporation, and FAG (Canada) Corporation.

Senator HUMPHREY. What I want here is the trend. Can you give your analysis of what the trend is and if there is reason for concern?

Mr. DONNELLY. There is obviously a trend, as you pointed out, that the U.S. base is shrinking as far as bearings producers. Then again, there are many sectors that are shrinking today because of the worldwide economy.

Senator HUMPHREY. That is true, but there are certain sectors that we have singled out in our usually laissez faire approach to watch carefully because of national security concerns, and this is one.

Mr. DONNELLY. That is right. We have watched it carefully for a number of years and that is why we have restricted acquisition of miniature bearings of this type to domestic source only. That is primarily from an industrial mobilization viewpoint.

We believe we need to have a certain amount of capacity on our shores. So, I would agree with you we have to watch it carefully.

To answer your question academically, of course there is a trend for foreign ownership.

Senator HUMPHREY. What is the reason for that? What is the explanation for this trend?

Mr. DONNELLY. I am not sure I have an answer for the bearings situation. I will by the time I complete my review of this. I guess there are many reasons why companies may want to invest in the United States.

Let us use the case of bearings. If they are restricted to domestic origin and a foreign company wants part of the action, I would see a desire on its part to acquire a U.S. company and manufacture in the United States.

Maybe there is an analogy with the automobile business perhaps where we now have Volkswagens being produced in Pennsylvania.

Senator HUMPHREY. Going on to the next paragraph, you say that you became involved in a review in this particular case because "you are concerned that a viable industrial base is maintained for these products."

How do you define "viable industrial base"?

Mr. DONNELLY. I was hoping the whole day would go by without your asking that question.

Senator Humphrey. Whenever I see that word "viable," that is a warning sign.

Mr. DONNELLY. Viable is a difficult word to describe.

As a precursory, let me just say that while I am sure you are aware, but many of your constituents may not be aware, in reality there really is no captive or separate defense industrial base in the United States. There is an industrial base and DOD is another consumer in that marketplace.

To the extent our commercial economy becomes nonviable and nonproductive, so do our acquisitions. So, the answer to the question as far as bearings are concerned is we want to make sure there is enough capacity within the United States to support our peacetime requirements and those requirements that may be critical in emergencies.

Senator HUMPHREY. How much is enough capacity?

Mr. DONNELLY. That gets us off into what emergency we might be faced with in the future. I think the amount of capacity that we have today is adequate.

Senator HUMPHREY. Do you have some scenarios by which you make these judgments? How do you recall the judgment of what is adequate and what is sufficient?

Mr. DONNELLY. We lay out a military scenario. Generally speaking, a military scenario would involve a substantial conventional conflict of an extended duration during which time we would assume a rather massive mobilization of economy. That would be a worse case scenario for U.S. industry.

Then we take the demands for the products we will need to meet that scenario in an attempt to make sure there are enough underpinnings and that the economy can live. It becomes awkward and difficult and quite costly to watch all these sectors.

Generally we buy aircraft, ships, and tanks, things that have bearings in them. To get down into the individual industry sectors is a job indeed.

Senator HUMPHREY. From the point of view of the Department of Defense, in reaching an opinion in this case, you will be comparing

the North American controlled industry, which is three companies, assuming the proposed merger takes place, you will be comparing the capacity of three remaining companies with varying scenarios.

Mr. DONNELLY. I am not sure we would limit it to three companies. We would want to look at it from the perspective of will the asset be here in the United States and be productive?

In other words, if a particular plant is owned by a foreign concern, that in itself may not be a reason to say that it will affect mobilization.

Senator HUMPHREY. I understand. But that foreign ownership in a critical industry I think is increasingly becoming a problem.

Should we be considering making foreign ownership a criterion even though the capacity remains here? Is that something you have been thinking about?

Mr. DONNELLY. I have been thinking about it, but not enough to give you a sound answer this afternoon. I think that concern enters into our discussions that we have.

Now, whether it should be made a part of a rule or regulation specifically, I am not prepared to answer that.

Senator HUMPHREY. Going on to the next paragraph, what is so important about electronic contact angle measuring gauges and automatic preload gauges?

Mr. DONNELLY. Let me describe it this way: we have a DOD group that watches over the miniature bearing industrial base. As part of their review they described New Hampshire Ball Bearings and they were attempting to show the uniqueness and importance of that facility.

The main reason why I decided to mention it this afternoon is that I wanted to point out that we view that company as a very important piece of the bearing production base. We are on a fast-moving train on this issue.

Subsequent to receiving information from our own people, we have been gathering information from representatives of the company, and so forth. We are going to have to resolve perhaps any differences of views as far as uniqueness and production rates and capacity and those kinds of things.

I don't see where that is going to take a very long period of time. Everybody so far has been very forthcoming in providing this information.

Senator HUMPHREY. What do you call a fast-moving train?

Mr. DONNELLY. I think partly as a result of your interest you have lit a fire under this thing to make sure we get it done.

Clearly, I think it would be in the interest of everybody to come to a resolution right away. There are business decisions that the company in New Hampshire wants to make and if we can move along, we should do that.

We shouldn't stand in the way of progress. Fortunately in this case, at least from the industrial base part of the question—capacity and capability—I don't see a need to spend a lot more time gathering information. We have most of it already.

Senator HUMPHREY. I understand there are other concerns. The concern of this committee, of course, is military preparedness. I am trying to focus on that responsibility which is ours.

Can you assure us that this train is not moving so fast that decisions will be hasty? What is the driving factor in this?

Mr. DONNELLY. I think in the Defense Department it is just our tendency and perseverance to make sure we do a good job.

I can tell you I can't imagine DOD deciding anything unilaterally until the overall Committee on Foreign Investment considers the entire scope. I don't see that I could describe it as an imminent decision.

Senator HUMPHREY. You have the latitude to take as much time as you need to do an adequate job?

Mr. DONNELLY. I believe so.

Senator HUMPHREY. Are there any deadlines you are facing of any kind?

Mr. OSTERDAY. We might face some in the committee, depending on other recommendations to them. But we have our own actions we are taking, too, that doesn't depend on a timeframe.

Mr. DONNELLY. Mr. George can add to that.

Mr. GEORGE. Once the filing is complete, then I believe we have up to 30 days, possibly an extension of that.

Senator HUMPHREY. If you don't make a report within 30 days, then what happens?

Mr. GEORGE. I would rather have the Justice Department answer that, but I believe in the absence of any grounds for extending that time, the parties could go ahead with their acquisition.

Senator HUMPHREY. It is going to be consummated unless CFIUS persuades the executive agencies to do something about it.

Is that your understanding?

Mr. GEORGE. Within the 30 days if there are problems, Justice or FTC presumably would act. So, they are going to try to make their deadline.

We would try to make our contribution to the deadline on time.

If there is no problem, no one will act and it will just clear.

Senator HUMPHREY. The clock stops at what point?

Mr. GEORGE. The 30 days I believe begins after the filing is complete by both firms.

Senator HUMPHREY. Getting back to my original point of inquiry, you have adequate time to examine this proposal?

Mr. DONNELLY. I believe so.

Senator HUMPHREY. If you find yourself rushed for time, do we have your assurances that you will seek an extension?

Mr. GEORGE. Yes.

Senator HUMPHREY. Furthermore, that you will notify this subcommittee?

Mr. DONNELLY. We will be pleased to do that.

Senator HUMPHREY. Mr. Donnelly, you will recall that New Hampshire Ball Bearings is an important piece of the industry. I want to get back into that area again.

For what reason is it an important piece?

Mr. DONNELLY. As I said earlier, our information is that they do a very, very good job. There are good people who operate that company and good people who produce the product. They have a technology in that plant that as far as we are concerned is the state of the art.

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With respect to the technology that is in the plant plus the fairly substantial amount of defense procurement in the plant, it is an important piece.

I know your next question is: "How much defense procurement?" The answer is that it makes a little bit of difference whether you are talking dollars or units or time periods, but it is around 50 percent.

Senator HUMPHREY. The technology is the state of art technology. You mean equipment and machinery?

Mr. DONNELLY. Their process for making bearings. Of course, I am operating at the moment from broad data obtained from the industrial base group which has been working on the bearings situation.

We are picking up information as we go along here and we may have to resolve some of the inconsistencies.

Senator HUMPHREY. Yes, I understand you haven't completed your studies yet.

They use processes that are state of the art?

Mr. DONNELLY. Yes.

Senator HUMPHREY. Are these unique to New Hampshire Ball Bearings?

Mr. DONNELLY. We are going to find that out. One piece of information says it is and another says it can be found in most places. We will find out.

Senator HUMPHREY. It is critical to get this information, of course.

Mr. DONNELLY. I think so.

Senator HUMPHREY. I guess you imply that the reservoir of talent, or whatever, is considerable as well?

Mr. DONNELLY. I have been told that in the case of bearings production, a lot of that has to do with the capability of highly skilled people.

There is equipment but, like in many other business sectors, people is one of our most important pieces. We have a lot of people who are highly skilled that have been in the business for 20 or 30 years and are thinking of retiring someday. That represents a substantial asset.

Senator HUMPHREY. Again, is that unique to New Hampshire Ball Bearings, these five firms?

Mr. DONNELLY. We are certainly going to find that out.

Senator HUMPHREY. You have not established that?

Mr. DONNELLY. No, we have not established whether for sure New Hampshire Ball Bearings is unique in the business. We will find that out. If in fact, they are unique, I don't know whether you can draw the conclusion that some Federal action should be taken.

Again, viewed from the narrow industrial base standpoint, what we want to be sure of, as defense planners is that the capability be here in the United States.

Senator HUMPHREY. Another concern, somewhat apart from that of foreign ownership, is the matter of one or another firm cornering the market and gaining a substantial corner of the market.

What are your feelings about that in this case?

Mr. DONNELLY. I think our feelings are in two separate categories. I will give you one piece. Mr. George may want to followup.

As a sector begins to change for any reason and we have a condition where one or two of the five hearing companies might be in such a state of affairs that they were going to shut down, that causes some concern if we believe that if one company shuts down, there will not be enough capacity to produce the bearings in an emergency.

Under those circumstances and where we can fully justify it, we can exempt ourselves from the usual competitive practices of procurement, and literally direct procurement to individual sources as necessary to keep minimum sustaining rate in the industry sector.

As any sector begins to change its form, that is an option available to us.

I would add however, that is a very artificial way of going about things and, given a choice, we would rather let the free market handle this.

Mr. George may want to add to this with respect to the antitrust involvement.

Mr. GEORGE. We will not be making a decision on the antitrust aspects. Mr. Donnelly has pointed out well the fact that at this point there is some difference in sources of the data, some suggesting a larger or smaller share of the market.

So, any comment on what we might think about, that is purely hypothetical. Substantial shares are understandable even in the defense industry. We can live with it.

We haven't too often run into circumstances where the share of a defense industry of this type amounts to very high numbers. In some industries it might make no difference at all, in others it might.

We are just going to have to work this through step by step and decide whether cost-wise or in future research and development or in terms of the availability of some items it may make a difference. We cannot say at this point.

Senator HUMPHREY. Thank you.

Mr. Donnelly, again getting back to the concern about one firm getting a corner on the market, you seem to be implying that in this area you are concerned about redundancy.

Is that a correct interpretation?

Mr. DONNELLY. I am not sure I understand exactly the question. I guess if one firm took control of a sector to a point where its competitors would be forced to do business elsewhere, yes, from a capacity standpoint that would be a concern.

Senator HUMPHREY. I am not sure I understood your reply.

What do you mean by "concern"?

Mr. DONNELLY. If one firm took such a share of the marketplace and forced another firm to shut down and do business in another commodity, then we would be concerned from a capacity standpoint.

Senator HUMPHREY. Is that happening? Is that why the industry dwindled from 10 companies down to 5?

Mr. DONNELLY. I would put it in three categories and I will be glad to follow this up for the record.

One category might be those companies who desired to go off in new product lines on their own.

Second, it could be caused by import penetration, competition from overseas.

[Additional information follows:]

There are many reasons why these bearing companies have gone out of business. However, we believe that the major causes were foreign imports, low volume defense orders, increased energy costs, and the recession.

Mr. OSTERDAY. The basic technology is so advanced that the market can pass them by and they don't want to invest the money.

Senator HUMPHREY. I don't want to get into proprietary matters, but it is my understanding that New Hampshire Ball Bearings is concerned, to say the least, about this market share in this particular product, miniature precision ball bearings.

In turn its market share is threatened with substantial shrinkage because of increased competition. In other words, what I see happening here is a process that is getting worse and worse.

When Minebea gets bigger and bigger, it is harder and harder for the remaining firms to compete and stay in business. By helping Minebea get bigger and bigger, are we not helping the smaller firms toward that fate in the end?

Mr. DONNELLY. That we will find out. I don't know that we would necessarily lay the blame on Minebea for the other four or five companies that have elected to go out of business. I don't know whether we can draw that conclusion.

Certainly there has been import penetration and certainly there has been increased manufacturing capability in countries like Japan. They are a substantial competitor.

Senator HUMPHREY. What about competitiveness?

As the number of companies and bidders shrink, are you experiencing inordinate price growth or difficulty in delivery dates?

Mr. DONNELLY. Not yet. Of course, there are still five plants.

Mr. OSTERDAY. I might say that our action back in the early seventies was a very definite factor in stabilizing the industry we have today and helping them to modernize to stay competitive, not just for DOD, but also the world market.

What we have done over the years has done some real good in that we have been able to keep the capacity that we need for national security and additional capacity remains for use for commercial purposes.

Senator HUMPHREY. The action you are describing is a requirement?

Mr. OSTERDAY. To buy domestic—United States and Canada.

Senator HUMPHREY. American-made bearings?

Mr. OSTERDAY. Yes; United States and Canada.

Senator HUMPHREY. Is that going to be sufficient in future years given the new trend; namely, that while the property remains in the United States, the ownership is shifting abroad?

Is that Buy American requirement going to be sufficient to protect our base?

Mr. DONNELLY. I think the rules that we have for domestic origin will be enough.

There is also authority under the Defense Production Act necessary to keep production there if that is necessary. There are remedies available to us.

Senator HUMPHREY. You have been working on this particular case how long?

Mr. DONNELLY. I will be very pleased if this country could get to the point where we wouldn't have to rely on techniques such as this.

The real answer is one way or another for U.S. industry to be more competitive, to invest in new manufacturing techniques and processes. But I think that is the answer.

I will be tickled pink to be able to dispense with a lot of these rules some time in the future.

Senator HUMPHREY. How long has the case been under review now by the Department of Defense?

Mr. DONNELLY. I think we began looking at it informally 2 months ago when we began to see inquiries from the Congress and some private citizens and the bearing companies.

Senator HUMPHREY. You have about 30 days left. I understand the firms have filed the necessary paperwork and the clock is running; is that correct?

Mr. GEORGE. We have heard one of the firms has completed its filing and the other is going to, I assume, in the coming weeks.

We first became aware of this proposed acquisition on July 10, according to my records. It was a newspaper pronouncement that it had been announced that at 11 a.m. that day the offer had been made.

We were in immediate communication with the chairman of the staff of CFIUS and also called our security office that handles industrial security to find out if there was any classified work.

Senator HUMPHREY. From the point of view of the Department of Defense in a case where you have sufficient concern about national security that you want to stop the sale, to whom do you direct this information and then what happens?

Mr. GEORGE. The same people, I would say. We would work within CFIUS with the other agencies. I don't know that a specific case has arisen where the power to stop it has existed.

Senator HUMPHREY. Where the power to stop it has existed?

Mr. GEORGE. CFIUS cannot say that the proposed acquisition cannot be accomplished. It takes other forms.

For example, in the case of defense if there is classified work, we would want to be sure that the parties to the sale knew that this would require an American board of directors to isolate the foreign owners from the firm if they wanted to retain their facility clearance for classified work.

As I understand it, in the Department of Interior there is reciprocity under the Mine, Mineral Land Leasing Act. So, the power to do this is unique to each agency.

The cases where it comes up don't arise very often.

Senator HUMPHREY. I want to be assured that there is some mechanism.

Can any of you cite a case where the Department of Defense has sufficient concern and recommended to block the sale? How is that carried out, practically speaking?

Mr. GEORGE. In the case of Kuwait Petroleum buying Santa Fe International the lead on that was actually taken by the Department of Energy which has the responsibility for security. In the

end I believe the U.S. firm dropped its contract with Hanford and another U.S. firm took it up, an American-owned firm.

So, each case will be different. At times someone, might talk to the proposed buyer and seller and just communicate our concerns or some of the factors that are involved which they might not have been aware of.

Senator HUMPHREY. I think it was stated earlier there were 20 cases a year that come before CFIUS. Is that correct?

Mr. GEORGE. That is approximately right.

Senator HUMPHREY. I take it that it is very rare that anything happens beyond the review. Is that correct?

Mr. GEORGE. That is right. Informal review usually. Often the conclusion is that there is no problem. We do a thorough check, so do the other agencies.

Senator HUMPHREY. So, the reason that seldom is anything done is that usually you don't find a problem?

Mr. GEORGE. That is right.

Senator HUMPHREY. Can you think of a case regarding national security where this has been carried to the Secretary of Defense?

If the Department of Defense itself is sufficiently concerned and wants to block a sale, how would it be blocked?

Mr. GEORGE. The one involving Santa Fe International and Kuwait Petroleum was carried through the whole process.

Once evidence is available, it is exchanged between the agencies. A notice of meeting is sent out which includes all the relevant papers of each of the departments received through their representatives. This notice and information would be sent to the full Senior Policy Level Committee. Each agency staff makes its recommendation, the Assistant Secretary reviews it, makes his decision, and signs an appropriate memo back to the chairman of CFIUS.

Then, if needed, there is a meeting of the entire senior policy level group to see if they can reach an agreement.

When it reaches that stage, for example, in the case I mentioned, the Chairman of the Treasury Department staff and chairman of the CFIUS may be in contact with the parties to the proposed acquisition and they, seeing what the problem is, may try to work out a solution.

Sometimes a firm which has classified work may choose to spin off a subsidiary that handles that work thereby removing the problem of having a separate American board of directors. Each case is unique.

Senator HUMPHREY. I understand that. I still don't think I have gotten the answer.

Let us say that the Department of Defense feels very strongly that New Hampshire Ball Bearings should not be sold to Minebea.

What can the Department of Defense do to stop it?

Mr. GEORGE. We have no legal authority.

Senator HUMPHREY. What can any department do to stop it?

Mr. GEORGE. It might come under the antitrust provisions of FTC and Justice.

Senator HUMPHREY. The only way to stop it is if it violates antitrust law?

Mr. GEORGE. Again, it depends on the case. In that case, it would be antitrust. If it were energy it might be covered by the Mine, Mineral Land Leasing Act.

Senator HUMPHREY. There is no way to stop it in case of a threat to national security? Is that the answer?

Mr. GEORGE. I would rather deal with a specific kind of security threat. If it is a case of classified work, there has to be a separate U.S. Board of Directors. We find that is a very substantial part of the safeguards of classified work.

If there are technologies that are classified, they would be covered.

Senator HUMPHREY. That is a modification of the terms of sale, isn't it, as opposed to blocking of the sale?

Mr. GEORGE. That is correct, but it is a modification which safeguards our interest in classified work.

Senator HUMPHREY. That is an interesting thing that, given the elaborate process, in the final analysis, at least, with respect to national security, there is no way to block it. You can modify it, but there is no provision in law apparently that enables it to be blocked in a case where national security is concerned.

Mr. GEORGE. We have an open investment policy and I believe the Department of Defense supports that. As there is more investment in more high technology industries, perhaps new kinds of problems may arise. The Committee on Foreign Investment does have the power to make recommendations and to make a review.

But it has not gone to the point of specific additional restrictions other than those that are already in law which protect atomic energy and certain other industries, such as mineral lands.

Senator HUMPHREY. Can you tell us at this point whether you plan to make a formal application to CFIUS to review this case?

Mr. GEORGE. Yes, I can. We did make that application at the last meeting of the CFIUS staff. We had talked through the summer, as we looked at this, with the chairman and other agencies and at the staff meeting since the first of September we immediately took that up.

We made the recommendation. I believe the Treasury and the other departments concurred. I asked if there is anything additional required in writing.

The Treasury chairman said there is concurrence on what is required. The actual process will involve more pulling papers together and making sure everyone has information and requesting formal agency replies in preparation for a meeting at the senior policy level.

That will really be the formal review at that point.

Senator HUMPHREY. But the process has begun, you have formally requested CFIUS to convene on this matter?

Mr. GEORGE. Yes, we have.

Senator HUMPHREY. Did the Department of Defense release a preliminary report in this matter?

Mr. GEORGE. There has been no preliminary report.

Senator HUMPHREY. We have a number of questions that we will submit to you in writing.

It is very difficult for us in our responsibility here to exercise that responsibility in the absence of a definition of what capacity

is, or what is a viable industry or any of those phrases. It is very difficult for us to exercise our responsibility.

So, we will have to await your further findings and perhaps have one further hearing or at least communication.

In any case, we will want to followup on this so that we can exercise our oversight responsibilities.

I want to thank the witnesses for their help and cooperation not only in today's hearing, but during these past weeks and months.

Mr. DONNELLY. Thank you, Mr. Chairman.

Senator HUMPHREY. Our next group of witnesses is from the New Hampshire Ball Bearings Co., Inc. We will ask them to come to the table.

Mr. Ted Kanell, president, and whoever else he wishes to have with him.

STATEMENT OF THEODORE KANELL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NEW HAMPSHIRE BALL BEARINGS, INC., ACCOMPANIED BY ROBERT BRADLEY, VICE PRESIDENT AND CHIEF OPERATING OFFICER, AND DONALD I. BAKER, ESQ., SUTHERLAND, ASBILL & BRENNAN, WASHINGTON, DC

Mr. KANELL. Mr. Chairman.

Senator HUMPHREY. Good afternoon.

Will you tell me your names once again.

Mr. KANELL. My name is Ted Kanell, president and chief executive officer of New Hampshire Ball Bearings.

On my left is Robert Bradley, executive vice president and chief operating officer of the company.

On my right is Donald Baker, counsel in antitrust matters.

I am thankful for the opportunity to tell you about New Hampshire Ball Bearings and Minebea and what this entire transaction means to those of us who are close to the company.

New Hampshire Ball Bearings, as you probably know, is a publicly held company listed on the American Stock Exchange with annual sales of about $59 million.

We employ about 1,500 people spread across four plants, all of which are in New Hampshire where the company was founded.

In two of the towns in which we operate, Jaffrey and Peterborough, we are the largest employer in those areas which gives us a strong sense of commitment to those communities. Based on the last count, Senator, we are the eighth or ninth largest employer in the State.

Our primary products are antifriction devices, ball bearings. For those who are not familiar with ball bearings, they look like these and they come in a variety of sizes.

Senator HUMPHREY. Don't tell anybody back home, but I grew up in Bristol, CT. I know about ball bearings.

What size is this?

Mr. KANELL. That is an R-2, I think, about three-eighths of an inch outside diameter.

Senator HUMPHREY. What would that be in millimeters?

Mr. BRADLEY. Approximately 8 millimeters.

Senator HUMPHREY. How much smaller do you make them?

Mr. BRADLEY. Our very smallest bearing we make is 2½ millimeters outside diameter.

The outside diameter of the largest component is 2½ millimeters.

The smallest dimension of the inner ring is three-quarters of a millimeter, roughly.

Senator HUMPHREY. The standard nomenclature is the outside diameter?

Mr. BRADLEY. Yes.

Senator HUMPHREY. This is 3 millimeters?

Mr. BRADLEY. No, this is 8.

Senator HUMPHREY. You make them as small as 2½?

Mr. BRADLEY. Yes.

Mr. KANELL. As you can imagine, these devices are used primarily in rotating devices that pretty much run the gamut in industry: Fishing reels, high-speed dental drills, computers, office automation equipment, missile guidance systems, gyroscopes, aircraft engines, and so forth. If it turns or has mechanical movement, we probably are involved or should like to be involved.

Minebea, on the other hand, is a larger international corporation operating on a worldwide basis with manufacturing plants in Japan, Singapore, Taiwan, and California. Their annual sales right now are running at a rate of $600 million and about $100 million of that is the ball bearing market sold on a worldwide basis.

New Hampshire Ball Bearings was founded in New Hampshire in 1946, making this our 38th year in business. I have been there some 27 years. Some of our employees go back to the very beginning in fact, with many like myself, of 20 years or more of service in the company.

We have long taken pride, some say fierce pride, in our independence: Yankee independence, I guess it is called, but the world is changing and however difficult it is, we must come to grips with the new realities.

For the products I am discussing here, imports now account for about 60 percent of U.S. consumption. That is 60 percent.

By comparison, when the automotive industry got up to about 15 percent, they were in serious difficulty. I think shoes at about 25 percent were having a fair amount of trouble also. We are at 60 percent.

We have survived. It was a very tough market, given those kinds of statistics. We began dealing with this severe situation starting 8 or 9 years ago. We began to seek means of reducing our dependency on these small bearings which are produced by offshore manufacturers and sold mainly on price.

What we have done is to try to accelerate our thrust into the larger, more sophisticated ball bearing products which contain a much higher degree of engineering content. We are finding it more difficult to compete because of the large amount of liaison required between our respective engineering departments. It is a long, difficult and expensive process.

Set against the general background which I have provided, a unique opportunity did present itself. Merger, of course, has always been one of our options. None that we have seen has offered the

assurances for our people and for our customers as does this particular combination with Minebea.

It is an offer unlike any other that I have seen. It provides a rare opportunity to strengthen our products, offering to enhance the long-term, the longrun employment of our employees. Minebea is without question a proven, capable manufacturer that is totally dedicated to our kind of product, ball bearing devices.

So, looking at this combination, Senator, we have the opportunity to become a stronger competitor on a worldwide basis, as opposed to what we are now, which is almost exclusively domestic.

Minebea has also committed itself to developing New Hampshire Ball Bearings in New Hampshire as its national headquarters for all of its ball bearing activities in this country, building upon what is already there, building upon 36 years of construction.

They talk about making additional investments in the present facilities up to $50 million. Thus, rather than New Hampshire jobs being displaced potentially by imports, we see the chance here to add more jobs and to raise the level of opportunity for our people.

When there are more jobs, the communities in which we operate are served as well.

With the infusion of capital equipment, manufacturing enhancement, we can become effective, we can become more cost effective and retain our position as a valuable supplier to customers, including, of course, the Department of Defense from whom we heard just a few moments ago.

Finally, in my brief comments, Senator, at $65 per share, investors, many of whom are from New Hampshire, get an excellent return on their investment.

I think as one looks upon this as a combination in which all the four constituent groups, for which I feel responsibility—our employees, our customers, the communities in which we operate, and the shareholders as well—are all exceedingly well served.

For these reasons, sir, I ask that this committee support this most promising business combination.

That concludes my introductory remarks. I will be glad to answer any questions that you may have.

Senator HUMPHREY. Thank you.

Mr. KANELL. There is a written statement which I ask to have made a part of the record.

Senator HUMPHREY. Yes, indeed.

[The prepared statement of Mr. Kanell follows:]

PREPARED STATEMENT OF THEODORE KANELL, PRESIDENT, NEW HAMPSHIRE BALL BEARINGS, INC.

INTRODUCTION

I am grateful for the opportunity to appear here today. Let me spend a few minutes telling you about New Hampshire Ball Bearings and about Minebea and about what this whole transaction means to those of us who are close to the company. New Hampshire Ball Bearings is a publicly-held independent company of approximately 1,500 people with sales of $59 million last year. Its headquarters are in Peterborough, New Hampshire. We have been in business since 1946. We operate four plants in the State of New Hampshire with the main plant being located in Peterborough and with a second plant in Jaffrey, New Hampshire. The plant in Peterborough is approximately 200,000 square feet. The plant in Jaffrey is approximately 40,000 square feet. Both plants are owned by the corporation, and together

they employ just over 1,000 people. In Laconia, New Hampshire, we own a plant of approximately 77,000 square feet. A second operation in the Laconia area operates from leased facilities of approximately 20,000 square feet. The Peterborough and Jaffrey operations are in the business of making antifriction ball bearings, and the plants in Laconia are involved in making spherical bearings and aircraft tube assemblies.

So in total you see that New Hampshire Ball Bearing is an organization of approximately 1,500 dedicated and hardworking people, whose average length of service is about eight years. We have 143 employees who have been with us over twenty years, and 451 who have been with us over ten years. I myself have been with the company for 27 years. We are the ninth largest employer in the State of New Hampshire.

The Minebea organization is a large international corporation operating on a worldwide manufacturing and marketing basis. Their ball bearing interests are principally located in Japan, but they also have ball bearing manufacturing facilities of significant size in Singapore, Thailand, and Chatsworth, California, a suburb of Los Angeles. The "NMB" organization, as the bearing group of the Minebea corporation is known, markets almost exclusively miniature and instrument size bearings [1] with virtually no sales of product in larger bearings, and they market commercial grade ball bearings as well as the aircraft-oriented, more precise, higher technology ball bearings. The NMB Chatsworth plant has been supplying bearings to the aerospace industry, including the Defense Department, since the early 70s. On a worldwide basis Minebea accounts for approximately $600 million in annual sales, with the bearing group representing something over $100 million in sales. Minebea's other products include electronic keyboards, calculators, electric motors, and other automotive or consumer oriented products.

HISTORICAL BACKGROUND

In general, the miniature and instrument ball bearing business started from its infancy in the late 40s and early 50s, depending primarily on the aerospace business for its customer base. As the age of miniaturization progressed through the 50s and 60s, miniature and instrument ball bearings began to play an ever larger role in consumer products as well as in military or aerospace products. As these two markets grew, the miniature and instrument ball bearing business grew with it and attracted numerous manufacturers. At one time virtually all of the principal ball bearing manufacturers in the United States had some significant manufacturing capability in miniature and instrument ball bearings.

In the 70s, the demand for small ball bearings increased dramatically due to their use in office automation equipment, copiers, printers, computer peripheral equipment, video tape recorders, etc. That great increase in the market attracted increasing numbers of foreign manufacturers into the domestic picture. The market share held by foreign manufacturers, principally the Japanese, increased. Subsequently, the number of domestic manufacturers declined until today there are many fewer small bearing manufacturers than there once were in this country.

In recent years another phenomenon has taken place, as ball bearing purchasers have increasingly shifted their manufacturing operations offshore, where they are closer to foreign bearing sources. Thus, the domestic bearing manufacturers, already squeezed by foreign imports, now find themselves operating in a worldwide market. Price, quality, and customer service competition has become truly international.

At the current time imports account for more than 60% of the miniature and instrument bearing sizes. That is, more than 60% of all the bearings under one inch in diameter consumed in the United States are supplied from manufacturers outside the United States. Most of those are supplied from Japanese manufacturers. The manufacturers of small commercial and precision bearing in this country have been in a very tough market for a long time.

CHANGES TO NHBB

We at New Hampshire Ball Bearings began to deal with this basic issue several years ago in two different ways. First, we expanded our effort to increase our own capability in manufacturing larger size, more sophisticated aerospace bearings,

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[1] In common industry usage "miniature" bearings are those with an outer diameter of 0 to 9 mm, and "instrument" bearings are those with an outer diameter of 9 to 30 mm. (An inch is about 25 mm.) Miniature and instrument bearings are often produced in the same facilities as larger bearings.

which account for a greater portion of dollar value within the bearing market. Second, we have increased our focus on ball bearing products that demand higher degrees of engineering content, customer service, response time to customers, etc. All of these are characteristics of the military and commercial aerospace business. We have been working at expanding into these markets for some years, and we will continue to do so.

In addition, we have begun to expand into non-bearing product lines—that is, something other than ball bearings that would have suitable use of our talents, marketing skills, engineering capabilities, etc. To that end we have evaluated several acquisitions, and one has been executed. That acquisition involved Scotia Manufacturing Company, now located in Laconia, New Hampshire, which manufactures special tubing and manifold assemblies for aircraft engines. The similarities in manufacturing and marketing make it an attractive additional product, and we envision significant growth potential of that product.

One of the considerations given close examination in the last several years has been for New Hampshire Ball Bearings to establish its own offshore manufacturing facilities in the Far East. To that end we have evaluated the investment requirements, the potential manufacturing costs, and our overall ability to sell the output both in the Far East and domestically. We have concluded that the required investment of financial and managerial resources is prohibitive for an organization of our size, and it is unlikely to produce the kind of return expected of us as a publicly-held company.

THE ADVANTAGES OF THIS MERGER

Turning from this general background, I want to explain the Minebea merger and its advantages.

No company is better than its products and its people. We have fine products and fine people, and I have thought a lot about both in evaluating this merger.

This merger offers us a chance to strengthen our product offerings and enhance the long-run employment prospects for our employees. Minebea is a very capable manufacturer, totally committed to our products and to improving them. We believe that we are a solid competitor today in a very competitive market, and with this merger we can be an even more effective competitor tomorrow.

To be specific, this merger offer significant advantages to all of the constituencies we serve—our employees, our communities, our customers, and our shareholders. I will examine each of these in turn.

Employees and Communities.—Our employees and communities have a vital stake in NHBB's being an effective long-run competitor. Anything that potentially increases NHBB's efficiency and product range is good for our loyal employees. The Minebea merger does just this.

Minebea is an efficient bearing producer that is willing to make a very substantial investment in NHBB and its future. Minebea is investing over $100 million in the acquisition itself and has publicly indicated that it will invest an additional $10 to $50 million in manufacturing capability in New Hampshire.

The combined bearings business conducted by Minebea and NHBB in the United States shall have its principal operations in New Hampshire. Minebea will maintain current employment levels at the Peterborough, Jaffrey, and Laconia facilities and will allow more rapid expansion into the markets for larger bearings. You can be sure that this level of commitment is aimed at growing an organization capable of better service to the employees and the local community.

Customers.—Our customers are sophisticated enterprises. They patronize NHBB because we provide quality products at competitive prices. After the merger, we shall go on seeking the business of existing customers with an even more cost-effective operation. The addition of a broad commercial revenue base will provide support for the more costly engineering research and development required by the technical aerospace customers. We believe that the resulting combination of improved manufacturing efficiency and increased technical ability will provide a substantially stronger supplier to the aerospace industry in general and to the military customer in particular. In addition, this combined entity will have the capability to complete in the international markets, permitting increased exports from New Hampshire.

Shareholders.—The shareholders, in receiving $65 per share in cash, would obtain a financial return on their shares that they could not otherwise realize, at least in the near term.

CONCLUSION

In summary, let me say that the bearing industry in general and New Hampshire Ball Bearings as well have been through difficult times in recent years. Our market shares, our sales revenue, and our profitability have been pressured by ever increasing offshore competition. This well-selected business combination would buoy the company's ability to compete. It will enhance our ability to maintain support of the more technically demanding aerospace bearings. It is therefore important for all of us that this combination proceed, and we ask this committee's support to that end.

[Attachment]

NEW HAMPSHIRE BALL BEARINGS, INC.,
Peterborough, NH, October 12, 1984.

Mr. RICHARD C. DONNELLY,
Director Industrial Resources, Office of the Under Secretary of Defense, for Research and Engineering, the Pentagon, Washington, DC.

DEAR MR. DONNELLY: We were very pleased to have John Osterday visit us last week and I hope we were able to fully answer all questions and concerns. During Mr. Osterday's visit I gave him a listing of our total ball bearing sales with a breakout of the military sales data in the millimeter sizes requested. The size ranges shown bear no particular significance to the ballbearing market in which we operate, or the methods by which we manufacture the products, but are broken down in these size categories purely to satisfy the request. As you can see from the enclosed copy, the military portion of 0–30MM sales is relatively small totalling $9.5 million. Trying to put the numbers in perspective, we have great difficulty equating this total with the report that we supply 65 percent of DOD's requirements even in this category.

The machinery and production techniques employed here are not high proprietary nor are they unique. We are not engaged in classified work and our plants do not have security clearance. The basic machinery we use is universally available. We are innovative in that we take this standard equipment and add devices to it in-house to make it more efficient, but then too so do all our competitors. By way of example, let me comment on the two advanced techniques you referred to in your testimony before the United States Senate Armed Services Subcommittee on Preparedness. The advanced preload measuring equipment was actually developed in the early 1960's. At that time we tried to market the gauge but only sold two instruments: One to the Autonetics Division of Rockwell International Corp., Anaheim, California; and one to the Naval Weapons Support Center, Crane, Indiana. In the late 1960's a bearing deflection gauge was developed at MIT, now Draper Laboratories, and this instrument can be readily converted to measure the Dynamics preload gauge design by anyone who is interested. The automatic contact angle measuring equipment also is not new or particularly unique. We simply adapted a manually operated gauge to a motorized drive and an electronic counter which reads out the contact angle directly. The basic design and measuring technique has been used by customers and manufacturers for many years and conversion is relatively simple.

We share DOD's concern that there be adequate bearing capacity in the United States in the event of an emergency. We believe there is certainly adequate capacity now, and in the event of the combination of Minebea and NHBB, that capacity will be strengthened because New Hampshire Ball Bearings itself will become a much stronger company. Minebea has, for example, made a written commitment to have its principal United States bearing operations located in New Hampshire, to maintain current employment levels there and to continue to operate in existing markets as well as expanding into related markets. Minebea has also agreed to make a capital investment of $10 to $50 million at New Hampshire Ball Bearings' current plant in machinery and equipment. This infusion, together with the transfer to New Hampshire Ball Bearings from Minebea of its advanced state-of-the-art technical know-how will give New Hampshire Ball Bearings a revitalized commercial capacity. It will provide the revenues needed to improve both cost and technological effectiveness and to broaden New Hampshire Ball Bearings' involvement in military related high-technology products.

In sharp contrast, if this merger is not consummated, the direction of New Hampshire Ball Bearings will have to change from its traditional bearing markets. The commercial bearings product line in particular, which in the past has been the source of "cash flow" for research and development for the high technology and military products, has been under heavy attack from offshore producers who now constitute 60 percent of United States consumption. The financial return from these

products has already been significantly reduced and will, without Minebea's involvement, be even further reduced in the future.

Throughout our discussions with Minebea they have stressed repeatedly their interest in the highly dedicated stable and experienced work force at New Hampshire Ball Bearings. This is an important reason why Minebea is willing to pay a significant premium over market for New Hampshire Ball Bearings' stock. They have also told us of their plans to expand and improve the New Hampshire Ball Bearings' product. Minebea is committing over $100 million to the initial stock purchase and, as previously noted, promises to make a capital investment of $10-$50 million. I find such a level of investment inconsistent with any strategy other than the continued aggressive operations of the bearings business in New Hampshire. I would not have recommended this acquisition to our Board otherwise.

In addition to the existing suppliers of 0-30mm bearings, DOD could turn to former suppliers in this size range which have switched to other ball-bearing products because of import competition (e.g., Fafnir Div. Textron, Inc. and TRW Bearings Div., TRW, Inc.); and could also turn to existing suppliers of larger size bearings which could reconfigure their existing equipment to make 0-30mm bearings (e.g., New Departure-Hyatt Div., GM Corp.).

Finally, as you know, under the Defense Production Act, particularly its 1975 amendments which are currently in effect, DOD could require a combined Minebea-NBBB as well as any other bearings suppliers to DOD to fill orders appropriate to promote national defense, and in fact, to require acceptance and performance of such orders in preference to other contracts or orders.

I appreciate this opportunity to respond to you, and, of course, am ready to discuss with DOD or any other member of CFIUS any ramifications of this transaction.

I also enclose several copies of my written statement submitted to the Senate Armed Services Subcommittee in the event you have not already seen it.

Yours sincerely,

THEODORE KANELL,
President.

Senator HUMPHREY. Again, our concern is only in the area of national security. I understand your urgency of the other aspect, addressing the industry problem and you can be helpful to us here as an expert in that.

You have described over the years the number of domestic manufacturers had declined until today there are many fewer small bearing manufacturers in this country.

What is the explanation behind that decline?

Mr. KANELL. When imports first hit this country, starting back about 1967, we were in the perhaps unfortunate position of being almost exclusively in the markets which they chose to penetrate.

What it gets down to is that, it was the only product we had and we fought hard and vigorously to protect those markets, spent a lot of time, energy and effort in improving our production capabilities to retain a competitive posture.

Other domestic producers who had other products to fall back on simply gave up in those areas and abandoned those particular market areas at that time. I think that is why we have the situation that you described.

Senator HUMPHREY. Basically, it is foreign competition that has driven these other companies out of the market or out of business?

Mr. KANELL. Yes.

Senator HUMPHREY. An earlier witness told us there were 10 that manufactured precision bearings.

Mr. KANELL. There were about 10 companies, back then I believe producing the kind of product about which there has been concern expressed here. They are still in business. They are still there, they are still capable of making those particular products.

They have simply chosen to divert that capacity and equipment to other product areas.

Senator HUMPHREY. They are not capable of converting overnight or in a short period of time to manufacture precision bearings?

Mr. KANELL. Time is a relative term. I would say, based on our experience, with equipment in place, you may be looking at a 6-month time frame to get back into the products in which they were involved.

Senator HUMPHREY. What does it take in the way of special equipment to manufacture miniature bearings?

Mr. KANELL. To me there is a bit of misunderstanding, actually, in that the equipment which we use and which all other bearings manufacturers use is universally available. We all buy from the same machine tool manufacturers.

Some of the so-called uniqueness I have heard expressed earlier is some of the innovative things we did to try to make our equipment more productive, more cost effective, taking a standard piece of equipment and adding things to it, developed in-house, to make it more efficient.

Senator HUMPHREY. What is the most critical machinery involved here? Is it the grinder or quality control devices?

Mr. KANELL. What it gets down to is people. Equipment is universally available. We have been in the business for a number of years. In that period of time we have developed skills.

The question of equipment itself is secondary to the skill of the people.

Senator HUMPHREY. You say that imports account for more than 60 percent of miniature precision bearings?

Mr. KANELL. Those are U.S. Department of Commerce figures.

Senator HUMPHREY. Do you concur in those figures?

Mr. KANELL. Yes; I do.

Senator HUMPHREY. What would have been the market share of imports in this product area 10 years ago, in your opinion?

Mr. KANELL. My guess is perhaps half of that, but I will defer to Bob here to see if he has a thought on that.

Mr. BRADLEY. The question, Senator, is trying to put the time-frame. Ten years ago, say 1974, my guess would be a little bit under half, maybe 35 or 40 percent.

Going back another 5 years from that, perhaps 20 percent. That is about the time the rapid rise of penetration started to occur, in the early seventies.

Senator HUMPHREY. Where is it going to stop?

Mr. KANELL. That is the question that haunts me. I don't know.

Senator HUMPHREY. Is there any reasonable expectation that the import penetration will level off at some point?

Or should we look forward to losing at least the ownership of our miniature precision bearing industry?

Mr. BRADLEY. I am just thinking that the leveling off period, probably the ultimate position of the imports, is when collectively imports have, for all practical purposes, a lion's share of a price sensitive market, which is to say the commercial end of the business.

We don't know exactly at this point what share they have of the more commercialized market as opposed to the U.S.-based market, but it is a lion's share.

Imports now capture a higher share of the commercial market than they do of the aerospace-based market.

Senator HUMPHREY. Do you mean quality, size, or both?

Mr. KANELL. That is, applications in office automation equipment is a commercial market, as opposed to something that might go into military equipment.

Senator HUMPHREY. Wouldn't there be a strong correlation between quality and tolerances, and so forth?

Mr. KANELL. In many cases the parts are interchangeable.

Senator HUMPHREY. Between commercial and precision?

Mr. KANELL. That is correct.

Senator HUMPHREY. It is just the end use then, not so much the specification?

Mr. KANELL. The end use.

Senator HUMPHREY. You mentioned trying to get into products that demand a higher degree of engineering content.

What does that mean?

Mr. KANELL. These would be essentially military, aerospace-type applications, the bearings going into missile heat-seeking devices or guidance systems.

We are talking about a bearing that has a much more esoteric type of characteristic, higher engineering content, if you will.

Senator HUMPHREY. It still looks like this.

Do you have specifications for temperature tolerance?

Mr. KANELL. You couldn't tell the difference, side by side, but there is more work in terms of overall quality control, of the integrity of the geometry and the general configuration and running characteristics of the product.

Senator HUMPHREY. These are bearings that couldn't be taken off the shelf and applied to multiple uses? They are designed for specific use?

Mr. KANELL. In the case of military applications, oftentimes the bearings they use in the military application are configured very much like the so-called commercial application, except they are produced with a bit more care than the application may dictate.

Senator HUMPHREY. You have discussed a number of assurances that Minebea has provided to constituent groups, as you call them, in a way those assurances to the Nation with respect to property remaining here and being available for national security.

Why would a foreign company keep its operations here when the very fact is that it can operate more efficiently abroad and permit it to penetrate our markets to begin with?

If they can do it, why can't we do it is the question?

Mr. KANELL. We looked at that. We looked in some great depth at what it would take to set up our operations over there. By over there, I mean in those parts of the world which have a much lower labor cost.

A case in point would be Thailand. It is hard for us to understand this, but in Thailand, for example, the average labor rate for a worker runs in the neighborhood of $65 or $75 per month. They work an 8-hour day, a 6-day week.

We thought about setting up plants over there to take advantage of that situation. As I mentioned before, we are a very capital-intensive type of industry, heavy equipment, metal working equipment. The cost of setting up and having to sell those products into those markets at very competitive prices provided very poor, insufficient return on investment, at least measured by U.S. investor standards.

We, therefore, abandoned that idea.

Senator HUMPHREY. You cited what dollar figure per month for labor cost?

Mr. KANELL. Bob and I were both in Thailand back in May of this year. The information we got at that time was rates running around $65 to $75 per month for an average factory worker.

Senator HUMPHREY. Do you have a comparable figure for the United States?

Mr. KANELL. In our plant probably an average rate would be somewhere more like $5.50 an hour.

Senator HUMPHREY. Which would be about $1,000 a month?

Mr. KANELL. Yes; if are talking about a somewhat labor-intensive as well as capital-intensive product, you can see it means a pretty substantial cost.

Senator HUMPHREY. Why would Minebea want to continue operating in the United States with that kind of disparity in production cost?

Mr. KANELL. One of the things we have in New Hampshire Ball Bearings, I would like to think, is an excellent reputation in the field in which we operate, having built up that reputation over three decades.

We have in place a highly dedicated, highly skilled work force of about 1,500 people and those are the kinds of things that money cannot replace.

Senator HUMPHREY. Are there not such people in Thailand?

There are competitors making a success of it there. They must have adequately skilled people there.

Mr. KANELL. Most of the products being made there, Senator, find themselves in markets which are a lot less demanding than the kind of product we are talking about producing in the New Hampshire plants. It is a product of high-level skills.

Senator HUMPHREY. What some fear is that at some point this firm or property might disappear from this country and withdraw to other places with much lower labor cost and other kinds of costs, I assume.

It is possible at least that Minebea wants to simply liquidate New Hampshire Ball Bearings and get an even greater share of the market or export it ultimately where labor costs are lower.

That certainly is a concern to this subcommittee despite whatever the stated intentions are at this point. It is hard to understand why, if labor disparity is that great, a firm would want to continue to operate here when they could do better elsewhere and the present arrangement might be only temporary.

Mr. KANELL. There are a couple of reasons for that.

One was mentioned in the earlier testimony. The Department of Defense requires certain products be produced in this country. We

have to have some guarantee of some kind of operation here, to satisfy Department of Defense procurement requirements.

Let me also say that, I guess from a pragmatic point of view, when a company such as Minebea spends something in excess of $100 million to acquire the company, then talks about investing perhaps up to an additional $50 million in equipment, we have difficulty to believe they are going to do all that and then dismantle the operation. It sort of defies logic, if you will.

Senator HUMPHREY. Has not Minebea been seeking New Hampshire Ball Bearings for a decade or so?

Mr. KANELL. Minebea, the NMB operation in California, and New Hampshire Ball Bearings belong to the same Ball Bearing Manufacturers Association.

Over that period of time we have had idle conversations, I guess you might best describe it as curbstone conferences. They didn't amount to very much. There was always a sort of "Maybe we ought to get together sometime," sort of very vague comment. None of this became very serious, Senator, until about April or May of this year, as I recall.

Senator HUMPHREY. Minebea has what percentage of the precision grade bearings?

You differentiate between precision grade bearings and commercial grade bearings.

Mr. BRADLEY. I am not sure what percentage they have in this country.

Mr. KANELL. May I respond to that later, Senator, with a written response?

Senator HUMPHREY. I don't think that is necessary.

Can you tell us where the filings are by your firm and Minebea? Have they both now been submitted?

Mr. KANELL. We filed with the Justice Department, I believe about 3 weeks ago. I am not certain of Minebea. I was of the impression they had filed on Monday of this week.

I have since heard unofficially that the filing may have contained some technical deficiencies and they must resubmit it, which will be done in the next day or two.

Senator HUMPHREY. What are Astro products?

Mr. KANELL. The Astro products are produced in our plant in Laconia, NH. They are not ball bearings in that they do not rotate. They are more linkages, more like a hip joint linkage, very limited type of movement.

Senator HUMPHREY. Why are they called Astro? Space application?

Mr. KANELL. Astro is just the name of the division that we selected.

Senator HUMPHREY. What is the application of that product?

Mr. KANELL. That application is mostly aircraft, aerospace.

Senator HUMPHREY. Rod ends, control rods?

Mr. KANELL. The same sort of thing. We have some samples of those that we can show you.

Senator HUMPHREY. It sounds like it can be used as a weapon.

Mr. KANELL. If you can picture a landing gear, that has that kind of limited movement.

Mr. BRADLEY. The bearings that are in the top of that camera standing on those legs are spherical bearings of the type made by us.

Senator HUMPHREY. We do have some questions we would like to submit in writing if you don't mind. I think I have exhausted my curiosity for the moment.

[Questions submitted by Senator Gordon J. Humphrey, to be answered for the hearing record follow:]

QUESTIONS SUBMITTED BY SENATOR GORDON J. HUMPHREY

Senator HUMPHREY. Mr. Cornell, what is the Treasury Department's role in reviewing the sale of NHBB to Minebea Co.?

Is it through the CFIUS?

INVOLVEMENT AND DUTIES OF CFIUS

Mr. CORNELL. Treasury's role is through the CFIUS, and its role as the CFIUS chair is to formally launch and coordinate the committee examination of this investment.

Senator HUMPHREY. Mr. Cornell, as Treasury is the Chair of the Committee on Foreign Investment in the United States (CFIUS):

What are the duties of the CFIUS?

Mr. CORNELL. CFIUS monitors the impact of foreign investment in the United States and coordinates the implementation of U.S. policy on such investment. The committee arranges for analysis of trends and significant developments of such investment; provides for advance consultations with foreign governments on prospective major foreign government investments in the United States; reviews foreign investment in the United States which might have major implications for U.S. national interests; and considers proposals for legislation or regulations relating to foreign investment in the United States.

Senator HUMPHREY. How are reviews initiated in CFIUS?

Mr. CORNELL. Following notification of an investment to the committee by the parties to the investment or a request for review by an agency, the CFIUS determines whether a review is needed.

Senator HUMPHREY. How long does an average review take?

Mr. CORNELL. The time varies with individual investments, but most cases take from one to two months.

Senator HUMPHREY. Are there automatic criteria which will start a review by CFIUS?

Mr. CORNELL. The general criterion is whether the investment has major implications for U.S. national interests. A number of different considerations are relevent to this criterion—e.g., national security, competitiveness, and supply concerns.

Senator HUMPHREY. Mr. Cornell, how often does CFIUS meet? Is it on a regularly scheduled basis, or only when there is a case to review?

Mr. CORNELL. The full CFIUS meets as needed—e.g. when decisions regarding whether or not to review an investment and/or examination of staff findings are required. CFIUS staff meets more often to develop material for the full committee's review.

Senator HUMPHREY. How many cases does the CFIUS have under consideration at any one time?

Mr. CORNELL. The number will vary over time as reviews are completed and new investments are taken up. On an average, two or three cases.

Senator HUMPHREY. Mr. Cornell, if the case reviews indicate new laws and/or regulations are needed, how does the CFIUS make known desired changes?

Mr. CORNELL. If it desired such changes, the committee would submit a recommendation to the Cabinet Council on Economic Affairs (CCEA). Following their review and approval, the administration would submit a legislative proposal to the Congress. This would probably also involve consultation with related congressional committees.

NHBB CASE REVIEW

Senator HUMPHREY. Mr. Cornell, in the case of NHBB review, your statement indicates no review is currently underway. When do you think a review will be started?

Mr. CORNELL. A review was formally launched on Friday October 11. However preliminary work on this investment was started in September.

Senator HUMPHREY. When is the next CFIUS meeting?

Mr. CORNELL. Tuesday, October 23.

Senator HUMPHREY. Do you have an opinion of how long a review of NHBB would take to complete.

Mr. CORNELL. Not in specific terms. I would guess 3 weeks to a month.

Senator HUMPHREY. Mr. Cornell, have you reviewed the proposed NHBB sale enough to issue an opinion?

Mr. CORNELL. No.

Senator HUMPHREY. How long of a review would you expect?

Mr. CORNELL. As I indicated earlier, my estimate is a few weeks to a month.

Senator HUMPHREY. Mr. Smith, what is the State Department's role in reviewing the sale of NHBB to Minebea Company? Would this review be through the CFIUS or through an independent effort?

Mr. SMITH. The Department of State is a member of CFIUS and participates fully in its reviews of investments with potential impact on the U.S. national interest, including now, the proposed sale of NHBB to Minebea Company. All formal reviews conducted by the State Department are done in conjunction with CFIUS reviews; there are no independent efforts.

Senator HUMPHREY. Mr. Smith, does State interface with the foreign governments on such a review? Is this response always true?

Mr. SMITH. The Department of State generally does not communicate with foreign governments concerning CFIUS reviews. If such communication is required to successfully complete a review, it is carried out in the name of the Department of Treasury which chairs CFIUS. In exceptional cases where the issues involved escalate to a political level affecting relations between the United States and a foreign government, the Department of State may communicate directly with that government concerning the review.

Senator HUMPHREY. Mr. Smith, does State have a separate division or office that reviews similar sales?

Mr. SMITH. State Department positions on sales reviewed by CFIUS are developed by the Office of Investment Affairs of the International Finance and Development Division, Bureau of Economic and Business Affairs. This office has overall responsibility for following inward investment in the United States, including identifying foreign investments which may require formal CFIUS review.

Senator HUMPHREY. Mr. Smith, does State have an automatic review that regularly looks for cases/sales which might require a review?

Mr. SMITH. There is no automatic review of cases or sales in the sense of a comprehensive screening of all proposed investments by non-U.S. nationals. However, the Office of Investment Affairs follows closely major proposed inward investments in the United States and would be in a position to recommend a CFIUS review of those cases they felt involved the U.S. national interest.

Senator HUMPHREY. Mr. Smith, do the pressures of international relations and situations interfere in completing an objective review of sales?

Mr. SMITH. It would be impossible review a specific sale without an awareness of the international context in which the review takes place and the policy implications of the review's outcome. However, direct expressions of interest in a particular case by foreign governments are infrequent. I can assure you that, as far as the Department of State is concerned, we make every effort to ensure that the process is conducted objectively and decisions are reached according to the U.S. national interest and the merits of the case.

Senator HUMPHREY. Mr. Smith have you reviewed enough of the proposed NHBB sale to issue an opinion? How long of a review would you expect?

Mr. SMITH. The State Department has not yet completed its review of the NHBB case. I am, therefore, not in a position to issue an opinion at this time. We do not expect to be able to issue an opinion at this time. We do not expect to be able to issue an opinion on this case until DOD has completed its review, which may take several months.

COMMERCE DEPARTMENT'S INVOLVEMENT

Senator HUMPHREY. Mr. Hunt, what is the role of the Commerce Department in reviewing the sale of NHBB to Minebea Company?

Would this review be through the CFIUS or through an independent effort?

Mr. HUNT. As a member of CFIUS, the Department will participate in all aspects of the CFIUS review of the implications of the acquisition for U.S. national inter-

ests. The Department of Commerce will be prepared to move independently, if necessary, to assure that national security based controls on the exports of sensitive technology are observed.

Senator HUMPHREY. Mr. Hunt, does the Commerce Department have a separate division or office that reviews similar sales?

What initiaties such efforts at Commerce?

Can the possibility of monopoly be reviewed before a sale or do you have to wait until after the sale?

Mr. HUNT. As I pointed out in my testimony, foreign acquisition of U.S. companies can involve different functions and areas of expertise within the Department of Commerce, including the Department's statistical and analytical work under the recently amended International Investment and Trade in Services Survey Act of 1976, its role in controlling exports of sensitive technology and its Defense Production Act function related to planning for industrial mobilization for national defense. Commerce's participation in the CFIUS and its review of proposed foreign investments with major implications for U.S. national interests is coordinated by ITA's Office of Trade and Investment Analysis (OTIA). OTIA's Investment Analysis Division is responsible for monitoring foreign direct investment transactions, and publishing period reports for use by the Executive Branch, Congress, and the general public. Through its monitoring activities OTIA's Investment Analysis Division frequently identifies the proposed foreign investments that are subsequently reviewed by the CFIUS.

OTIA coordinates the participation of other ITA units on a case-by-case basis, depending on the nature of the proposed transaction. For example, technology transfer issues are coordinated with Trade Administration's Offices of Export Administration and Export Enforcement. Other reviews may be coordinated with the industry sectors in Trade Development and/or the regional desks in International Economic Policy. And of course legal issues involve the Office of General Counsel.

Whether initiated at the request of Commerce or other agencies, a preliminary Commerce review of a proposed foreign investment would occur following the identification of the transaction. Based on this preliminary review, Commerce would request a formal CFIUS review if, in its judgment, the transaction warranted such a review or if additional information were needed in order to make a determination of the investment's impact. The CFIUS will normally undertake a formal review if any *one* agency requests it.

With regard to the review of proposed foreign investments with anti-trust (monopoly) implications, the CFIUS maintains close liaison with the Department of Justice and the Federal Trade Commission. These agencies are responsible for undertaking anti-trust reviews under the Hart-Scott-Rodino provisions of U.S. anti-trust law.

Review does not have to await either the conclusion of the sale or formal placement to the matter on the CFIUS agenda.

Senator HUMPHREY. Mr. Hunt, in the Commerce Department's role of granting export licenses, how does the process work?

If a company was trying to export technology, would the Commerce Department be reviewing the transaction?

Do you review only transactions related to applications for licenses?

What if a parent overseas company wanted to transfer technology to their overseas site, would commerce be watching for this move? How do you watch it? If you do not, who does?

Mr. HUNT. A wide range of what can be loosely termed industrial or application technology constitutes "technical data" subject to control under the Export Administration Regulations. Most such technical data can be freely exported to the free world without having to apply to the Department of Commerce for an export license, so long as the conditions in the Export Administration Regulations for a general license to export are met. These conditions frequently require that the foreign recipient give the U.S. supplier written assurances that the technical data is not intended to be supplied to a proscribed (Communist) destination. Under the Export Administration Regulations, technical data "can be exported" in many ways, and the term is not confined to such conventional forms of export as the shipment of a computer tape or a set of blue prints. A foreign national can acquire significant technical data through discussions or inspection of equipment in the United States, and that data will be effectively "exported" when that foreigner leaves the United States. The need and opportunity for such communication of technology is obviously increased when foreign interests control a firm in the United States. The Department of Commerce conducts an active of program to educate industry on the nature and scope of technical data export controls, and Commerce will, as appropriate, bring these matters to the attention of company management in specific instances

of actual or impending foreign control of advanced technology companies. It is important that foreign management understand that we expect U.S. rules to be observed with respect to the dissemination of U.S. origin technology and that U.S. controls designed to prevent the acquisition of sensitive technology by potential adversaries are generally broader than those imposed by other Western governments. If there is reason to believe that these controls are not being observed, the Department's Office of Export Enforcement will investigate and take appropriate action.

As indicated above, it is lawful for a foreign owner in a free world country to "bring home" technology from a company it owns in the United States so long as it observes the requirements of the Export Administration Regulations, which are principally directed toward preventing the diversion of such technology to Communist countries to which exports are controlled for national security purposes. Nuclear non-proliferation concerns subject certain technology to more stringent controls applicable to a wide group of countries.

Foreign ownership, of itself, does not make a company in the United States the object of special export control monitoring or investigative activity. Intelligence from a variety of sources can direct the attention of the Department of Commerce and other enforcement agencies to companies and individuals that may be involved in illegal exports.

Senator HUMPHREY. Mr. Hunt, is there any automatic review process to examine transfers of technology?

What turns on the review?

Mr. HUNT. Relatively few cases of export of technical data to free world destinations require applications to the Department of Commerce for a license. The transfer of a United States company to foreign ownership does not, of itself constitute an "export" requiring a licensing decision by the Department of Commerce. Use of the Export Administration Regulations to prevent diversion of technology to the detriment of United States security involves, for the most part, a combination of education and, where warranted, enforcement activity. Review through the CFIUS process of a new or impending acquisition of a U.S. company by foreign interests can provide an opportunity to inform the principals of the implications of United States export controls as well as to review the acquisition from the standpoint of other United States laws and interests.

Senator HUMPHREY. Mr. Hunt, have you reviewed enough of the proposed NHBB sales to issue an opinion?

How long of a review would you expect in this case?

Mr. HUNT. Department of Commerce review of this acquisition is still underway as part of the CFIUS review. The Department's analysis and recommendations will be concerned with the overall interests of the United States and will not be confined to export control considerations.

I defer to the Treasury Department, the CFIUS chair, as to the likely duration of the review of this case.

BALL BEARINGS

Senator HUMPHREY. Mr. Donnelly, what is the role of the Defense Department in reviewing the sale of NHBB to the Minebea Company? Would this review be through the CFIUS or through an independent effort?

Mr. DONNELLY. DOD's interest in NHBB's sale is to insure that its bearing capability be retained in the US to meet our mobilization needs. We have a dual role, (1) to work through the CFIUS, and (2) to work independently as the case relates to domestic capability and our needs to meet emergency requirements.

Senator HUMPHREY. Mr. Donnelly, I know that representatives from DOD have been working with my staff on the findings of their preliminary review of the proposed NHBB sale. What started this DOD review since it was in progress when my office first called? How many inquiries or questions has the DOD received on this sale? Have the inquiries asked questions of a general nature or have they identified specific problems?

Mr. DONNELLY. We received about four or five inquiries from industry and Congress either by letter or telephone conversation. Most of the inquiries expressed general concern about possible negative impact on the domestic industry. Specific data has only been obtained from NHBB and MPB.

Senator HUMPHREY. Mr. Donnelly, does DOD plan to ask CFIUS for a review? When will the request be made? How long do you believe the review will take?

Mr. DONNELLY. Mr. William George, OUSD/Policy has already asked CFIUS for a review of the NHBB/Minebea situation. It should take 30 to 45 days to complete.

Senator HUMPHREY. Mr. Donnelly, does DOD have a separate division or office that reviews similar sales? Are you from this division or office?

Mr. DONNELLY. My office, in conjunction with Mr. George's office, usually reviews similar sales if there is an indication that National Defense interests are at stake.

Senator HUMPHREY. Mr. Donnelly, if inquiries are sent to DOD on sales, and the inquiries appear to have merit, where does DOD forward the issue to? CFIUS? Other than CFIUS?

Mr. DONNELLY. We can forward our issues to the CFIUS, Justice Department, and Department of Commerce or try to act on our own under certain conditions.

Senator HUMPHREY. Mr. Donnelly, does the DOD work with the Commerce Department in reviewing license requests? Does the possibility of a transfer of technology get close review? What action can be taken if a transfer is suspected?

Mr. DONNELLY. DOD works closely with Department of Commerce and other agencies on reviewing license requests if they involve defense or defense-related items. If the technology to be transferred is on the State Department controlled items list, direct action can be taken by the government to stop such a transfer. We, as a matter of policy, keep close watch over high technology areas that either impact directly or indirectly our national defense needs.

Senator HUMPHREY. Mr. Donnelly, is there any automatic review process to examine other areas such as: National Security? Industrial base?

Mr. DONNELLY. DOD has a formal industrial base planning effort under our Industrial Preparedness Program that covers critical defense items required for emergencies. However, most of the time, cases similar to NHBB are surfaced on less formal basis. We may become aware of the situation through the news media, Congressional inquiries, and letters from industry or private citizens.

Senator HUMPHREY. Mr. Donnelly, I understand that the precision, miniature ball bearings, defined as 30 millimeter or smaller, made by NHBB are on a critical asset list. Would you explain how this list works and how it affects the DOD and other agency reviews? What legal and/or Department regulations back up this list? How long have they been in effect and how often are they updated? Do you believe additional Congressional action is required to put teeth in this review and list system?

Mr. DONNELLY. Precision miniature ball bearings 30 millimeter or smaller are considered critical to DOD's needs and they are listed as such in the DOD Supplement to the FAR in sub-part 8. These types of bearings have been on our list for over 10 years as have other critical items that are used in items procured by the Military Departments and the Defense Logistics Agency. We up-date this list at least every two years. Items on this list are restricted to domestic sources to preserve our mobilization base production capability. There may be some cases where additional Congressional action may be desirable. However, this area would require more study before any action is taken.

Senator HUMPHREY. Mr. Donnelly, in your review of the NHBB sale to date, have you found any problems in the following areas: Industrial Base? Classification? Tranfer or technology? Any other area?

Mr. DONNELLY. We are not sure at this time about the impact on the industrial base. There is no problem from a classification standpoint. From a transfer of technology perspective, there are no current indications of a problem at this point.

Senator HUMPHREY. Mr. Donnelly, do you have a breakout of DOD procurement actions involving the NHBB? What was the DOD procurement dollars to NHBB over the past 10 years? What percentage of DOD ball bearings procurement goes to NHBB? What percentage of DOD miniature ball hearings procurement goes to NHBB? What are the dollar and percentage figures for DOD miniature ball bearings procurement actions to Minebea-controlled companies if this sale continues? Does this total dollar and percentage possibility cause concern? If so, why? If not, why?

Mr. DONNELLY. We have an estimated breakout of NHBB business with DOD. However, there is a difference between our estimates and those provided by NHBB. We will reconcile the data differences during our review.

Senator HUMPHREY. Mr. Donnelly, does DOD track the other DOD procurement actions which may have NHBB bearings? Do you have an estimate of this value?

Mr. DONNELLY. In our prime contracts for systems and equipment, we have a contractual clause that requires our contractors and subcontractors to purchase domestic miniature precision bearings (30mm and smaller). However, this provision does not require our contractors to specifically identify which domestic bearing manufacturer is providing the bearings. Therefore, we must rely on our local government procurement activities and industry to provide us with estimates of DOD related procurement of bearings. The actual value of DOD procurements at NHBB is very

difficult to nail down but when our review is finished we should have a fair estimate.

Senator HUMPHREY. Have you reviewed enough of the proposed NHBB sale to insure an opinion?

Mr. DONNELLY. No. We will have to wait until the joint agency review is completed.

Senator HUMPHREY. Mr. Kanell, the Minebea Company has for a number of years tried unsuccessfully to buy NHBB.

How long has the current management been dealing with Minebea on this proposed sale?

Mr. KANELL. Since late May early June 1984.

Senator HUMPHREY. Mr. Kanell, have all the pre-sale items been cleared up between NHBB and Minebea so that the paperwork can be filed?

Mr. KANELL. Yes.

Senator HUMPHREY. Mr. Kanell, some of the delay in completing the review of this sale has been lack of required paperwork filed in Washington.

Do you feel that you have met all these requirements now?

Have the Government agencies indicated how long the review will take?

What date will that be?

Mr. KANELL. Yes. The HSR filing was completed on September 28, 1984. It is my understanding that the law requires Justice to respond within 30 days from date of HSR filing. However, in the event Justice has further questions, Justice then has an additional twenty days to review the response to these questions.

Senator HUMPHREY. Mr. Kanell, are the review delays having an effect on NHBB, other than nerves?

Mr. KANELL. The uncertainties have resulted in several defections of key personnel, moral problems and the loss of some business. NHBB is a relatively small company with a lean management staff which finds itself overextended in dealing with the various regulatory requirements, while at the same time trying to run a business in a highly-competitive environment. Delays simply serve to exacerbate the situation.

Senator HUMPHREY. Mr. Kanell, as for the proposed sale contract, does it comply with the Government regulations for DOD programs and transfer of technology?

Was this a matter considered during the preparation of this contract?

Mr. KANELL. We are not involved in classified work for DOD or any arm of the government. The transfer of technology will be essentially from Minebea to NHBB, to enable us to become a more cost-effective producer. The transfer of technology from Minebea to NHBB was a primary consideration in the preparation of the contract, along with Minebea commitment to further expansion of NHBB's existing facilities. Minebea has stated their intention to invest up to $50 million in R&D, plant and equipment in New Hampshire.

Senator HUMPHREY. Mr. Kanell, in your dealings with the agencies reviewing this proposed sale, do you feel you have been treated fairly?

Mr. KANELL. We believe that we have been treated fairly in the sense that they appear not to have pre-judged the case. The inquiries by the Department of Defense and particularly the Department of Justice have been extensive, and we have been extremely cooperative, even though it has put a strain on our limited resources. We believe now that both agencies have a truer and more comprehensive picture of the facts, they should have no problems with the proposed merger.

Senator HUMPHREY. Mr. Kanell, What benefits do you feel will result from this sale?

Mr. KANELL. Please refer to my statement of September 26 before the U.S. Senate Committee on Armed Services Subcommittee on Military Preparedness. Reference pages 5 through 7 (copy enclosed).

Senator HUMPHREY. Mr. Kanell, do you feel there are bad side effects to this sale?

Mr. KANELL. No. We feel this business combination present a unique opportunity to strengthen the Company which in turn will provide increased employment security and economic benefits to the local New Hampshire communities.

Senator HUMPHREY. Mr. Kanell, would you like to comment on any of the statements made here today?

Mr. KANELL. Yes, I would like to comment on Mr. Donnelly's written testimony. The gauging equipment noted in his statement was actually designed by us in the 1960's and similar equipment has been developed by others. In my letter of October 12, 1984, copy attached, I noted that we would be pleased to share our preload and contact angle gauge designs with anyone who is interested.

Senator HUMPHREY. Mr. Kanell, do you feel the instructions for preparing for a sale involving all the factors of DOD, transfer of technology, and industrial base are adequately known to prepare for such a sale?

Mr. KANELL. We have to the best of our knowledge complied with known regulatory requirements.

Senator HUMPHREY. Mr. Kanell, do you feel that NHBB will continue with your stockholders meeting on October 26, considering all the reviews now in progress?

Mr. KANELL. The annual stockholders meeting has been postponed until we know the outcome of the merger proceedings. A tentative meeting is planned for late November, early December.

Senator HUMPHREY. Thank you very much for your cooperation and time. I know that is a substantial drain on your time and resources at a time when you have other demands. I appreciate your cooperation.

Mr. KANELL. Thank you for inviting us.

Senator HUMPHREY. The subcommittee stands adjourned.

[Whereupon, at 3:40 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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